

The AI Acquisition Playbook

EXECUTIVE SUMMARY

\$4B+
TRANSACTION EXPERIENCE

15-25%
VALUE LOST PER MONTH DELAY

40%
ACQUI-HIRES FAIL IN 18MO

Strategic Imperative

AI acquisitions demand a fundamentally different lens than traditional M&A. The single biggest mistake is applying traditional software frameworks—AI companies require evaluation prioritizing **talent retention, data assets, and technical debt** over conventional SaaS metrics.

CORE PRINCIPLE

In the AI era, extended deliberation is a competitive liability. Companies that win execute acquisitions at the speed of innovation while maintaining rigorous diligence.

Build vs. Acquire Decision Matrix

FACTOR	BUILD	ACQUIRE
Time to Market	>18 months OK	<6 months needed
Talent Access	Strong AI team	Limited expertise
Data Assets	Proprietary data	Need external moat
Capital Position	Constrained	Abundant

Valuation Frameworks

FOUNDATION MODELS
50-100x+ ARR

VERTICAL AI (GROWTH)
15-30x ARR

AI INFRASTRUCTURE
12-25x ARR

ACQUI-HIRE (ELITE)
\$25-50M/eng

Critical Due Diligence Areas

- **Technical:** Model architecture, training data provenance, open source compliance, inference costs
- **Talent:** Key person identification (3-5 people = 80% value), retention risk, culture fit
- **Financial:** Hidden cloud commitments, revenue quality, API dependencies
- **Legal/IP:** Chain of title, GDPR/AI Act compliance, contractor assignments

⚠ HIDDEN LIABILITY ALERT

A \$10M seed-stage AI company may have \$50M+ in cloud commitments over 3 years. These obligations survive acquisition and often cannot be terminated without significant penalties.

Red Flag Indicators

CATEGORY	RED FLAG	SEVERITY
Talent	Key lead departure announced	Critical
Technical	GPL/AGPL in core product	Critical
Financial	Cloud commits >2x ARR	High
Legal	Incomplete contractor IP	Critical

Payment Structure by Market

CONDITION	CASH	STOCK	EARNOUT
Buyer's Market	60-80%	10-20%	10-20%
Balanced	40-60%	20-30%	20-30%
Seller's Market	30-50%	30-40%	20-30%

Integration & Execution

FRAMEWORKS FOR POST-CLOSE SUCCESS

Accelerated Deal Timeline

- 1-2 WKS** **Initial Diligence** — Pre-built DD frameworks, technical evaluation, talent tiering
- 2-3 WKS** **Term Sheet → Signing** — Standardized deal terms, retention negotiations, risk allocation
- 2-4 WKS** **Signing → Close** — Regulatory prep, customer consents, Day 1 readiness

Total: 5-9 weeks vs. traditional 4-6 months

First 100 Days Playbook

PHASE	FOCUS	SUCCESS METRIC
Week 1	Communication & onboarding	No unplanned departures
Weeks 2-4	Stabilization & planning	Plan approved, morale stable
Days 31-60	Technical integration	Systems interconnected
Days 61-100	Cultural integration	Cross-team collaboration

⚠ CRITICAL WINDOW

60-90 days post-close is when most preventable departures occur. Key talent has assessed the situation and may be entertaining alternatives. Executive check-ins during this window are essential.

Post-Close KPIs

- Tier 1/2 Retention:** >90% at 12 months
- Employee NPS:** >0 at 90 days
- Revenue vs. Plan:** Within 10%
- Customer Retention:** >95% ARR
- Synergy Realization:** >80% by 18mo

Retention Package Design

COMPONENT	RANGE	BEST PRACTICE
Sign-on Bonus	50-150% base	50% close, 50% at 12mo
Retention Bonus	100-300% base	Cliff at 24-36 months
Equity Refresh	2-4x annual grant	Front-loaded (50% Y1)
Milestone Bonus	25-100% base	Integration deliverables

Pro tip: Use 18-month or 30-month cliffs to reduce predictable "cliff diving" at 12/24 months.

Contract Exit Strategies

- Commitment Migration:** Fold target's commitment into acquirer's enterprise agreement
- Workload Substitution:** Migrate other acquirer workloads to use committed capacity
- Negotiated Buyout:** Vendors often prefer negotiated exit over contentious relationships
- Third-Party Assignment:** Cloud commitment marketplaces may take favorable pricing

KEY INSIGHT

Companies that treat M&A as a core competency—with standardized processes, institutional learning, and continuous improvement—consistently outperform those approaching each deal as one-off.

Essential DD Checklist

- ☐ Model architecture validation
- ☐ Training data provenance
- ☐ Open source compliance
- ☐ Key person retention
- ☐ Revenue quality analysis
- ☐ IP chain of title
- ☐ Employment agreements
- ☐ Cloud commitments
- ☐ Change of control clauses
- ☐ Regulatory compliance